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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 005719

SIPDIS

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SUBJECT: (U) IRAN TO PROVIDE KUWAIT WITH FRESH WATER

Classified By: CDA John G. Moran for reasons 1.4 (b) and (d)

1. (C) Summary: The December 13 Kuwaiti-Iranian water importation agreement lays the foundation for Iran to begin supplying Kuwait with up to 900,000 cubic meters (over 200 million imperial gallons) of fresh water per day for a 30-year period. This would significantly increase Kuwait's supply of fresh water, bolstering Kuwait's current production of 300 million imperial gallons of desalinated water. According to the Ministry of Energy, the agreement is not government-to-government -- a structure the Iranians requested, but the GOK was adamantly opposed to. Rather the pipeline is to be privately financed, constructed and managed by an as yet unnamed international consortium. Details of the agreement, including the specific water prices the consortium will pay Iran and charge Kuwait have not yet been agreed to. Construction of the pipeline could begin within 6-8 months, after the GOK finds an investor, and should take about 2.5 years. End Summary.

2. (C) On December 16, Poloff met the Ministry of Energy's Assistant U/S for Planning, Training and Supervisory Centers, Yousef Al-Hajri. Al-Hajri had recently returned from Iran with Minister of Energy Shaykh Ahmed Fahad Al-Sabah, where the Minister had concluded a widely publicized 30-year agreement allowing for the importation of up to 900,000 cubic meters per-day of Iranian fresh water.

3. (C) As reported in local dailies, the \$1.5 billion project would include the construction of a 540-km pipeline that will carry water from Karkheh Dam in the Iranian Khuzestan province to the bank of the Arvand River in the city of Abadan (a distance of 330km), then run 210 km under the sea to the Kuwaiti coast. Discussions about Iranian-Kuwaiti water sales were initiated over two years ago, when Saddam Hussein was still in power, and the planned pipeline thus assiduously avoids Iraqi territory.

4. (C) Asked about the structure of the deal, Al-Hajri stressed that it was not a direct partnership between the GOK and Iran. Rather, he said, the two governments had agreed in principle to the sale of Iranian water to Kuwait, but agreed to leave the financing, building and operation of the pipeline to a consortium of private companies. Al-Hajri said that Iran had pushed strenuously for direct governmental joint partnership, but Kuwait had insisted on a third party in order to insulate the project from possible political pressures.

5. (C) For political reasons, Al-Hajri said, the consortium would consist of one Iranian, one Kuwaiti and one "international" company. The consortium has not yet been identified -- a process he expects to be completed within the next few months ) but Al-Hajri said initial construction could begin within 6-8 months. He estimated the project would take roughly two and a half years to complete. Al-Hajri indicated that details, including the price Iran would charge the consortium and the price the GOK would pay, would have to be negotiated by the consortium.

6. (C) Kuwait currently depends almost solely on desalinization for its fresh water requirements. During the summer of 2003, Al-Hajri said, the GOK was forced to carefully manage its 300 million imperial gallon daily fresh water production when consumption rates reached record levels. "We almost ran out (of water)," he said. When asked if Kuwait projects vastly increased water demands in the near future, Al-Hajri said plans by the Minister of Public Works/Minister of State for Housing Bader Nasser Al-Hmaidid to develop 70,000 housing units in the next five years played a role in Kuwait's decision to close the deal with Iran. (Note: Al-Hajri was either unwilling or unable to share Kuwait's projected water needs, but he did confirm that the Iranian deal would help meet current needs "at least for the next 30 years." End Note.)

7. (C) Al-Hajri said the water Kuwait plans to import from Iran represents "less than 1%" of the available water behind the Karkheh Dam, and will have a negligible effect on Iran's water supply. The deal allows Iran to sell water it is currently unable to easily distribute domestically due to extreme mountainous topography of the Khuzestan region. Asked about Iraq as a source of water, Al-Hajri said Kuwait never investigated the possibility because of Saddam Hussein

and concerns that Iraqi water was polluted. Al-Hajri said the Iran-Kuwait water pipeline would be cheaper than building another desalinization plant, and has the added benefit of being environmentally friendly.

18. (C) As for the current status of the agreement, Al-Hajri said it requires ratification by the Council of Ministers before further action can be taken. Al-Hajri expects this decision will take place within two weeks, at which time the GOK will focus on putting together a consortium to begin working on the project.

19. (C) Comment: The conclusion of this agreement should be interpreted as an act of necessity by Kuwait, rather than a new effort at strategic cooperation between the two countries. Despite public comments by GOK officials indicating a willingness to work more closely with Iran, Kuwait has consistently shown reluctance to deal directly with the Iranian government on matters of strategic importance to Kuwait (gas, water, etc.). It is unlikely that this distrust will disappear anytime soon, notwithstanding the removal of the common enemy, the regime of Saddam Hussein. That said, the deal should reinforce neighborly relations at a time when Iran faces strong international pressure due to its nuclear ambitions.

MORAN